Media can restrict insider trading

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Credit: Sacha Fernandez

New ANU research has found the media can have a strong effect in reducing corporate insider share trading by repeating existing information about trades.

The ANU study examined more than 1.3 million legal trades by US corporate insiders between 2001 and 2012, with an average trade size of more than $27,000.

It found insiders were less likely to make profitable share trades when information about prior trades, already available through regulatory filings, was more widely re-published across the media.

"If insiders are aware they are being followed by the media to a larger extent, they are less likely to make discretionary decisions at the costs of shareholders," said lead researcher Dr Lili Dai, from the ANU Research School of Finance, Actuarial Studies and Applied Statistics.

The study is the first to investigate the relationship between dissemination of insider share histories and corporate governance outcomes.

Company officials can face stiff penalties and even jail if they are found to have traded shares while knowing inside information about their company's performance or future plans which the public and other shareholders do not know.

In the United States, insiders must file specific details of their trades to the Securities and Exchange Commission (SEC). Financial media and online sites then publish the regulatory filings, catching the market's attention on the trading activities.

Dr Dai said the study found the repetition of existing information in media made a difference on insider trades.

The study found three key deterrents to opportunistic trading behaviour by insiders - the reduction of information asymmetry by making more company information available to the public, the risk of litigation, and the risk of reputational damage.

"If a significant amount of information about a company is disseminated in media, it reduces the insiders' 'information advantage', leaving less

room for them to trade profitably," he said.

"Insiders may also be concerned about litigation risk, which increases with the exposure of their prior trading information to the public.

"This disciplining effect of the media is expected to be greater when insiders' personal wealth and reputation are more strongly linked with the firm."

The research paper has been published in the Journal of Accounting Research.

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